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Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 IO-13 ISO-00 SP-02 ICA-11 AID-05
EB-08 NSC-05 SS-15 STR-07 OMB-01 CEA-01 L-03 H-01
PA-01 CIAE-00 FRB-03 INR-10 NSAE-00 XMB-02
OPIC-03 /114 W
----------083200 191824Z /53
R 191701Z APR 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 5281
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 06105

USEEC ALSO FOR EMBASSY
USOECD ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: GDS
TAGS: ECON, EFIN, UK
SUBJECT: BANK OF ENGLAND GUIDANCE ON LENDING

REF: (A) LONDON 5657, (B) LONDON 5733

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1. REFTELS NOTED FEARS IN FOREIGN EXCHANGE AND CURRENCY MARKETS THAT THE CHANCELLOR'S MONETARY TARGETS AND PUBLIC SECTOR BORROWING REQUIREMENT ARE CLOSE TO THE SAFETY MARGIN IN TERMS OF GROWTH AND INFLATION GOALS.

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2. ON APRIL 11 (I.E., BUDGET DAY), THE DEPUTY GOVERNOR OF THE BANK OF ENGLAND, JASPER HOLLOM, SENT A LETTER TO THE MAJOR BANKS IN LONDON RESTATING THE BANK OF ENGLAND'S EXISTING GUIDES ON LENDING BY BANKS AT FINANCE HOUSES, CONCLUDING THAT "I MUST ASK THAT THIS GUIDANCE SHOULD CONTINUE TO BE STRICTLY OBSERVED".

3. THE GUIDANCE TO BANKS IS AS FOLLOWS:

"NOTICE TO BANKS AND DEPOSIT-TAKING FINANCE HOUSES--THIS NOTICE RESTATES THE GUIDANCE ON THE DIRECTION OF THEIR LENDING WHICH BANKS AND FINANCE HOUSES ARE ASKED TO OBSERVE IN THE PERIOD AHEAD.

"BANKS AND FINANCE HOUSES ARE ASKED:

"(I) TO PROVIDE, WITHIN THE BOUNDS OF BANKING PRUDENCE, FINANCE REQUIRED FOR BOTH WORKING CAPITAL AND FIXED INVESTMENT BY MANUFACTURING INDUSTRY AND FOR THE EXPANSION OF EXPORTS AND THE SAVING OF IMPORTS;

"(II) IN ORDER TO ENSURE THEIR FUTURE ABILITY TO MEET THE REQUIREMENTS IN (I) ABOVE, TO EXERCISE STRICT RESTRAINT ON LENDING OR PROVISION OF FACILITIES FOR CONFIDENTIAL

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OTHER PURPOSES INCLUDING, IN PARTICULAR, THOSE TO PERSONS AND PROPERTY COMPANIES AND FOR PURELY FINANCIAL TRANSACTIONS.

"BANKS AND FINANCE HOUSES ARE REMINDED THAT THEY SHOULD NOT PROVIDE EITHER LOANS TO PERSONS OR CHECK-

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 06105

TRADING FACILITIES FOR THE PURCHASE OF GOODS COVERED
BY THE TERMS CONTROL ORDER ON TERMS EASIER THAN THOSE
PERMITTED FOR HIRE PURCHASE CONTRACTS."

4. COMMENT: IN REPLY TO A QUESTION, A SENIOR
OFFICIAL AT THE BANK OF ENGLAND TOLD THE TREASURY
REPRESENTATIVE THAT NO SPECIAL SIGNIFICANCE SHOULD BE
READ INTO THE NOTICE. IT IS A RESTATEMENT, NOT INTENDED
TO CHANGE EXISTING GUIDANCE, BUT RATHER TO REMIND THE
BANKING COMMUNITY OF THE GUIDANCE, "LEST PEOPLE THOUGHT
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IT HAD LAPSED".

5. ANOTHER OFFICIAL EXPLAINED THE REAFFIRMA-
TION IN LIGHT OF THE BANK'S DESIRE TO CONVINCE THE
MARKET THAT THE PSBR CAN BE FINANCED WITHIN THE MONETARY
TARGET RANGE DESPITE THE FACT THAT ESTIMATED FY-78/79
PSBR AT 8.5 BILLION POUNDS IS HIGHER THAN THE EXPECTED
RESULT IN FY-77/78 (5.7 BILLION POUNDS) WHILE THE M3
MONETARY TARGET OF 8 TO L2 PERCENT GROWTH IN FY-78/79
IS LOWER THAN THE LIKELY 13-14 PERCENT FIGURE FOR

FY-77/78.

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Message Attributes

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To: STATE TRSY MULTIPLE
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